



Atoss

Upbeat trading statement

EUR 6.31

Outperform

Year End Dec	Sales EURm	EPS EUR	PER (x)	PCE (x)	EV/ EBITDA (x)	EV/ Sales (x)
1999A	17.7	0.19	34.1	19.5	11.8	1.4
2000A	21.2	(0.01)	-	30.9	23.2	1.2
2001E	23.1	0.15	42.9	16.1	22.0	1.1
2002E	27.6	0.40	15.8	8.8	7.3	0.9
2003E	33.9	0.61	10.4	6.6	5.0	0.7nin

Market Cap
US\$26m
(EUR28m)

Reuters
AOFG.DE

Bloomberg
AOF NM

Q2 results somewhat reassure us that though Atoss is not doing well, it is capable of surviving - and is continuing to develop its product. However we still believe that though the company is fundamentally undervalued, the catalyst for major outperformance is some way away.

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- ◆ **A decline in software sales is worrying.** Licence revenue fell 25% in the first half and only a good performance from maintenance and consulting activities allowed the company to moderate its losses. Atoss management expects a changed investment climate in the next two quarters in particular from large account customers. However we believe orders may be postponed owing to market sentiment, in which case existing pipeline would not support the revenue target. Cost benefits from measures taken in the first six months should still support a positive result.
- ◆ **Within software sales, new products did best** with resource allocation and the medical solution both selling well.
- ◆ **Sales for the first half year were roughly flat.** The comparison is a tough one since last year included the major Deutsche Telekom software sale. The overall sales figure therefore is positive, but the mix (software at 33%) is below expectations.
- ◆ **We are not likely to see positive EBIT until Q4.** Our view is that the software market is unlikely to turn round this year, so our forecasts remains substantially lower than the company's. No major new orders have yet been announced.
- ◆ **However, we believe that in the long term the fair value of the company is around EUR 16.** We have some reassurance in these results that the company can cope with a low level of sales and survive. With EUR 29m cash in the bank, Atoss should clearly be a survivor of the market shakeout.



Results summary

Atoss results came in a little better than we'd expected as services revenue increased 51% and maintenance 76% YOY. This excellent performance partly made up for a poorer than expected figure from software licence sales, 65% down for the three month period and roughly flat year on year. This does however include an unflattering comparative with last year when the major Deutsche Telekom deal contributed most of the Q2 software figure.

Operating costs were well contained, and we believe the second half of the year will see further benefit from the reduction in staffing (from 197 at the end of last year to 177 now). However, gross margins fell from 65.4% in Q1 to 60% in Q2 as the margins in maintenance and consulting is lower than on software sales. A better mix in Q3/4 should enable the company to raise GM somewhat.

New products and marketing development

Atoss is doing well with its focus on the medical sector and announced a number of new deals within Q2. New resource allocation products, which enable employers to schedule employee time proactively, have sold well and over 40% of software licence sales this quarter were of new product. We believe this is a good result - Atoss is continuing to develop its products and the new range is obviously scoring highly with customers. (The number of R&D personnel actually increased despite the overall staffing cuts, from 38 last year to 42 now).

Further target sectors have been identified including retail and transportation. We believe the target sector focus worked well for Atoss in the medical arena and should deliver further benefits in future.

Valuation

Atoss has evidently suffered from overall market conditions and we believe it has also seen a number of funds selling out as its market capitalisation fell below their range. However, a 15% rise on the day of results suggests that investors are willing to be reassured by results in line with expectations.

The stock currently trades at under 16 times 2002 earnings. The market capitalisation also stands below the amount of cash in the balance sheet. With positive cash generation expected for the year, we believe Atoss should be a clear survivor of the current market turmoil and its strong customer list and development make it an interesting



investment. Our fair value based on a DCF analysis remains at EUR 16.

On the other hand it is difficult for us to see what will crystallise shareholder value in the near term. Atoss is buying back some shares, but the need to retain a significant free float will prove a restraining factor. A merger with another company in the HR space, such as Telework in the UK, or with a smaller ERP player, might prove a more attractive way of ensuring that shareholders are able to capitalise on the value of their investment. Obviously, any such deal would need to make sense from an economic and technological point of view.

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